

## Research Findings

Based on our research, however, regarding the commission practices of various carriers, commission levels paid in specific vertical markets, and the proportion of revenues paid as commissions, our evaluation is that \$500 million appears to be a reasonable—if slightly conservative—estimate of the totals paid for commissions, excluding location-specific surcharges, during 1992 by all carriers to aggregators. We estimate that total commissions paid by all interexchange carriers to all aggregators for operator service calling, and excluding PIFs, exceeded \$500 million. Although the volume of location-specific surcharges was beyond the scope of this report's research, we believe such surcharges probably represent an additional amount of between \$100 million and \$200 million. Our estimates break down, as shown in Figure 7.

**Figure 7**

**Estimates of Commissions Paid  
by IXC's and OSPs to Aggregators,  
1992**

**By Carrier**

AT&T .....	\$200 million
MCI & Sprint .....	\$100 million
OSP's & Other IXC's .....	\$200 million+

**By Vertical Market**

LEC-Owned Telephones .....	\$200 million
COCOTs.....	\$100 million+
All Hospitality & Institutions .....	\$200 million+
(inc. prisons, hospitals, universities, etc.)	
TOTAL COMMISSIONS PAID, 1992 .....	\$500-550 million

Note: All figures are rounded.

Source: Frost & Sullivan, Inc.

## **Commissions and their Replacement**

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Some BPP proponents have argued in the past that BPP would save American consumers this \$500 million-plus currently charged by carriers and operator services providers and paid to premise owners in commissions.

There are a number of countervailing factors, however, to be considered. Ameritech, a vigorous advocate of BPP, recently estimated in an ex parte filing that only 30 percent of commissions paid in its region would actually be a saving of BPP, due to such factors as increased dial-around compensation.

Aggregators who have invested in telecommunications systems with the expectation of return—most notably, private payphone owners and hotel and other accommodation system owners—will seek to compensate for those dollars. Predictably, they will either find ways to replace these dollars or they will shift their resources elsewhere, reducing services.

To replace lost income, surcharges are likely to increase dramatically in number and amount. They will be levied directly by many hotels and other institutions without the agency of a carrier, as was done before emergence of the operator services industry, and as is done today on 1+ calling. Payphone owners will seek additional ways of leveraging their technology to get around Billed Party Preference. To the great extent that their losses cannot be recouped, payphone owners will seek additional "dial-around" compensation.

## Replacing Commissions

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### Private Payphone Market

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The loss of revenue to payphones will lead to dramatic increases in the current \$6 per month dial-around compensation to payphone owners. The FCC has acknowledged that such compensation should be made on a per-call basis to the extent the ability exists to monitor it accurately.

Thirty-five cents per call is one figure that has been suggested by the FCC as a defensible level for per-call dial-around compensation in its recent proceeding on that subject, and it is below the 40 cents per call AT&T is currently paying to many carriers who provide alternate access dialing instructions to proprietary card users who subsequently complete their calls. The private payphone association APCC has recently demanded 50 cent per call compensation for dial-around growing from the new 1-800-COLLECT and 1-800-OPERATOR services.

If compensation were made at either level for the total volume of calls that would be "dialed-around" under BPP, it would be likely to absorb a large proportion of the amounts currently paid in commissions. We estimate that approximately 120 million 0+/0- and access code calls were made in 1992 from private payphones on interexchange networks (this includes all calls so initiated and carried over interexchange carrier networks, including calls in which 0+ handling is taken care of within the store & forward payphone and the call sent out to the IXC network as a 1+ call). If private payphone owners were compensated nationwide at a more conservative 35 cents per

call, which the FCC has already suggested, dial-around compensation would total

**\$42 million (120 million x \$0.35)**

If they were compensated at 50 cents per call, which is deemed reasonable by the payphone trade association, this level would be approximately

**\$60 million (120 million x \$0.50)**

In either case, this level would represent a large portion of the \$100 million-plus currently paid to private payphone owners in commissions.

## **Hospitality Industry**

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In the hospitality market, hotels typically already charge a 50 cent to \$1 surcharge on 1+ calls billed to the room. Surcharges were similarly charged directly on 0+/0- calls before emergence of the competitive operator services market. Hoteliers are likely to compensate for lost commissions through directly levied surcharges. In 1992, we estimate that approximately 550 million 0+/0- and access code calls were made from hotels on interexchange carrier networks. If each of these were given an extra 50 cent surcharge, that would cost the public \$275 million (550 million x \$0.50). In this market, where average commissions are much lower than in the private payphone market, this amount would greatly exceed the total of all commissions paid by operator service providers to all U.S. hotels.

## **Public Payphone, Institutional Markets**

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The other major large vertical markets are more difficult to assess. It is unclear at this point to what extent site owners on which LEC-owned payphones are located would receive compensation under a BPP regime. It is important to note, however, that a very large proportion of LEC-owned payphones are located on public property. In addition, the "institutional" markets (including prisons, universities, military bases and healthcare institutions) are also to a large extent within the public or non-profit sectors. To a substantial degree, then, reductions of commission payments (uncompensated by dial-around compensation) to such entities will represent revenue losses to the taxpaying public. Such institutions may in some cases also compensate through direct billing of surcharges, in similar fashion to the hospitality market.

## **Methodology**

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Frost and Sullivan gathered information for this study from both primary and secondary sources. The main source of information was extensive interviewing of, and acquisition of data from, market participants. Several carriers submitted detailed internal data to validate market estimates. Interviews were also conducted with FCC officials. Research drew on interviews and analysis currently being undertaken for the current edition of Frost & Sullivan's Operator Services Report and data from numerous other reports in the Frost & Sullivan database on operator services-related subjects, as well as the 1991 MIRC Operator Services report.

Other major secondary research sources included the FCC's 1992 report on TOCSIA, including its appendices, comments submitted by carriers to the FCC as part of the Billed Party Preference proceeding, the FCC's 1992 report on private payphone compensation, and articles in the general and trade press.

Frost & Sullivan is the acknowledged industry leader in operator services market research and is currently preparing the third edition of its widely-quoted Operator Services Market study. The project director of this report, Steve Koppman, is the author of the second and third editions of this study and an expert on carrier industry markets. He has also produced well-received analyses of general long-distance and reselling, international, 800, WATS, private line, 900/976, local exchange and worldwide telecommunications markets.

# Appendix: Methodology

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In terms of the initial parameters proposed for this study and the elimination process illustrating the proportion of calls to be excluded, issues arose regarding possibly erroneous double-counting of exclusions, as well as the order in which various categories of calls should be excluded.

Certain parameters used in the initial proposal have not been used in the report because their contents are more efficiently accounted for in other categories. Most prominently, the usage of AT&T proprietary cards usually involves either an AT&T caller calling from an AT&T location, or the eventual dialing of an access code (1-0-288 in 1992) as "dial-around" from a non-AT&T phone. These two categories are used as more broadly defining the parameters of excluded calls, and are more definitively estimated. The number of other calls using AT&T proprietary cards and not falling under these two categories is not large enough to affect the dimensions of this analysis significantly. In addition, the fewer than 10 million AT&T proprietary card calls estimated to have been "splashed" by alternative carriers to AT&T (and therefore not counted under either of the two categories mentioned above) could not as easily be claimed to be "not benefited" by BPP, since callers would

presumably connect more rapidly under a BPP system than in a splashing scenario, and would avoid additional charges in some cases.

In terms of eliminating categories of calls sequentially, this could be done in a variety of sequences. For example, it can be done by the process in the initial proposal, by first deducting live 0- collect, third-party and other calls not benefited by BPP, then access code calls, then AT&T proprietary card calls, and finally those AT&T subscribers calling from AT&T phones.

The method used here was chosen in an effort to make the argument as clear and non-controversial as possible, to simplify, and reduce the risk of double-counting. The effort was first to introduce those exclusions that were as large, as non-controversial as possible, and with the least complex computations. The largest and most straightforward exclusion was that of AT&T callers using AT&T phones. Few would argue that BPP would be of any use in such cases. The exclusion for calling from homes by residents, etc., is also fairly non-controversial.

The exclusion for dial-around calling comes next, virtually entirely in addition to the previous calls excluded and with no issue of double counting. This dial-around number does not exclude all access code calling, but only those that have the effect of changing the carrier to which the call goes. Dialaround calling is in some ways a more powerful argument than the categories of live 0- calling, also, because dial-around is steadily and rapidly increasing with time, while live 0- calling is gradually declining as a share of these calls. Though this exclusion is fairly straightforward, BPP advocates might argue that the new system would save the caller keystrokes from dialing an access code. However, with at least temporarily



increased access times, and the educational process that has already taken place in regards to access codes, any benefit is highly questionable.

The exclusions for live 0- calling of various types are more complex. Some BPP advocates might conceivably disagree that there is no benefit to providing an automated solution in which the live 0- operator looks up the preferred carrier based on a number supplied, rather than the caller having to supply the additional bit of information—the preferred carrier—verbally. The time involved in the database search, however, not to mention the need to interact with two operators under current system limitations, would seem to contradict such an argument.